

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Wolverine Lake</u>	County Oakland
Audit Date June 30, 2004	Opinion Date November 29, 2004	Date Accountant Report Submitted To State: January 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 26400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Village of Wolverine Lake**

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## **Financial Report with Supplemental Information June 30, 2004**

# Village of Wolverine Lake, Michigan

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## Independent Auditor's Report

To the Village Council  
Village of Wolverine Lake

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Wolverine Lake, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Wolverine Lake, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Wolverine Lake, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Village Council  
Village of Wolverine Lake

As described in Note 13, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

November 29, 2004

# **Village of Wolverine Lake, Michigan**

## **Management's Discussion and Analysis**

Our discussion and analysis of the Village of Wolverine Lake, Michigan's (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Village's financial statements.

### **Financial Highlights**

As discussed in further detail in this management's discussion and analysis, the following represents the most significant highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$40,000, or 10 percent, this year.
- Total net assets related to the Village's governmental activities increased by approximately \$96,000. As discussed below, one of the major goals of GASB Statement No. 34 is to measure the full cost of providing services. This increase of \$96,000 indicates that today's recipients of services and current taxpayers have funded the full cost of services via a combination of user fees, property taxes, and state-shared revenue.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The full accrual statements include the statement of net assets and the statement of activities, which provide information about the activities of the Village as a whole and present a longer-term view of the Village of Wolverine Lake, Michigan's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view: they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

# Village of Wolverine Lake, Michigan

## Management's Discussion and Analysis (Continued)

### The Village as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004:

TABLE I

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 2,210,699	\$ 1,044,317	\$ 3,255,016
Noncurrent assets	<u>259,766</u>	<u>970,242</u>	<u>1,230,008</u>
Total assets	2,470,465	2,014,559	4,485,024
<b>Liabilities</b>			
Current liabilities	161,794	76,247	238,041
Long-term liabilities	<u>20,203</u>	<u>805,437</u>	<u>825,640</u>
Total liabilities	<u>181,997</u>	<u>881,684</u>	<u>1,063,681</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	217,737	89,805	307,542
Restricted	1,109,453	849,524	1,958,977
Unrestricted	<u>961,278</u>	<u>193,546</u>	<u>1,154,824</u>
Total net assets	<u><b>\$ 2,288,468</b></u>	<u><b>\$ 1,132,875</b></u>	<u><b>\$ 3,421,343</b></u>

As of June 30, 2004, the Village of Wolverine Lake, Michigan's combined net assets increased 1.8 percent from a year ago, increasing from \$3,362,356 to \$3,421,343. As we look at the governmental-type activities separately from the business-type activities, we can see that the governmental-type activities had a modest increase in total net assets, representing a 4.4 percent increase. In comparison, the business-type activities had a modest decrease in total net assets, representing a 3.1 percent decrease.

Unrestricted net assets of the governmental-type activities, the part of the net assets that can be used to finance day-to-day operations, is \$961,278, or 44 percent, of expenditures.

# Village of Wolverine Lake, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year:

TABLE 2

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 203,610	\$ 70,010	\$ 273,620
Operating grants and contributions	338,044	-	338,044
Capital grants and contributions	7,602	45,108	52,710
General revenue:			
Property taxes	1,309,799	-	1,309,799
State-shared revenue	357,701	-	357,701
Unrestricted investment earnings	13,869	2,681	16,550
Miscellaneous revenues	46,356	-	46,356
Increase in investment in joint venture	15,603	-	15,603
Total revenue	2,292,584	117,799	2,410,383
<b>Program Expenses</b>			
Legislative	7,755	-	7,755
General government	411,370	-	411,370
Public safety	845,917	-	845,917
Public works	819,690	-	819,690
Community and economic development	17,012	-	17,012
Recreation and culture	93,378	-	93,378
Interest on long-term debt	1,260	-	1,260
Water and sewer	-	155,014	155,014
Total program expenses	2,196,382	155,014	2,351,396
<b>Change in Net Assets</b>	<b>\$ 96,202</b>	<b>\$ (37,215)</b>	<b>\$ 58,987</b>

### Governmental Activities

As this is the first year of implementation for Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), comparative information on a government-wide basis is not available for the year ended June 30, 2003. In the future, comparative information will be presented in the management's discussion and analysis starting with the year ended June 30, 2005. For the year ended June 30, 2004, comparative information will be discussed for the fund financial statements only.



# **Village of Wolverine Lake, Michigan**

## **Management's Discussion and Analysis (Continued)**

As indicated in the financial highlights section above, state-shared revenue decreased by approximately \$40,000. In addition, depreciation expense of approximately \$51,000 was recorded on capital assets. Despite the negative financial impact of these two items, the Village's net assets actually increased approximately \$96,000. In addition, property tax revenues increased approximately \$60,000, resulting from increased taxable values and new development.

### **Business-type Activities**

The Village's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 400 residents. During the fiscal year ended June 30, 2004, the Village billed residents at the rate of approximately \$43 per household, per quarter. Line purges are scheduled by the homeowner and a fee of \$33 is added to their account when this occurs. The Water and Sewer Fund experienced an operating loss of approximately \$44,000, which is entirely due to depreciation expense, which is a noncash item. In addition, interest earned on special assessments offset interest expense associated with long-term debt.

Sewers have begun to be installed in the Village; however, the first installations took place subsequent to year end.

### **The Village's Funds**

Our analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities. The Village's major funds for 2004 include the General Fund, the Major Streets Fund, and the Local Streets Fund.

The General Fund pays for most of the Village's governmental services, the most significant of which is public safety, with expenses of approximately \$846,000 during the fiscal year ended June 30, 2004.

### **General Fund Budgetary Highlights**

Over the course of the year, the Village amended the budget to take into account events during the year. One significant amendment was for costs expected to arise from the 50th Anniversary Village Festival. This item was originally budgeted for \$2,500. Once things were started, a request was made to increase the budget by \$25,000. In the meantime, it was decided that some of the planned activities would no longer be taking place, so the amendment was reduced by \$17,500. The original and amended budgets did not account for the expense of additional harvester repairs and a new harvester engine. In addition, other budget overruns resulted from an engineering study related to a new sanitary sewer system, as well as additional payroll expenditures related to the hiring and retirement of police department personnel.

# **Village of Wolverine Lake, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

At the end of 2004, the Village had approximately \$1,188,000 invested in capital assets that include land, buildings, public works, police equipment, a new police patrol car, the Oak Island Bridge, pump houses, and the sewer line running down Glengary. The lake dam was updated with new sluice gates purchased in Canada and installed by the D.P.W.

### **Economic Factors and Next Year's Budgets and Rates**

The Village's budget for next year is based on the Village's 9.573 mills in property tax rates. The rate has remained the same for the last eight years. Our charter allows us to collect up to 20 mills; however, rollbacks required under the State of Michigan Headlee amendment have reduced our maximum authorized millage to 11.666 mills. The Village has chosen to levy only 9.573 mills, which means that there is millage capacity of an additional 2.093 if the Village Council determines additional revenue is needed to fund Village operations.

The new fiscal year will bring various special assessment districts to the Village for sanitary sewers. These will be financed through the issuance of bonds.

State-shared revenue also continues to be a concern of the Village, as with other local communities. The Village has considered the impact of state-shared revenue reductions during its budgeting process.

### **Contacting the Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the treasurer's office.

# Village of Wolverine Lake, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 1,998,461	\$ 185,295	\$ 2,183,756
Receivables:			
Accounts	-	28,143	28,143
Special assessments	30,898	849,524	880,422
Internal balances	18,645	(18,645)	-
Due from other governmental units	162,695	-	162,695
Fixed assets - Net of accumulated depreciation (Note 5)	217,737	970,242	1,187,979
Investment in joint venture (Note 12)	42,029	-	42,029
<b>Total assets</b>	<b>2,470,465</b>	<b>2,014,559</b>	<b>4,485,024</b>
<b>Liabilities</b>			
Accounts payable	98,411	1,247	99,658
Accrued liabilities	39,015	-	39,015
Noncurrent liabilities (Note 7):			
Due within one year	24,368	75,000	99,368
Due in more than one year	20,203	805,437	825,640
<b>Total liabilities</b>	<b>181,997</b>	<b>881,684</b>	<b>1,063,681</b>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	217,737	89,805	307,542
Restricted:			
Streets and highways	1,101,388	-	1,101,388
Drug law enforcement	8,065	-	8,065
Debt service - Special assessment bonds	-	849,524	849,524
Unrestricted	961,278	193,546	1,154,824
<b>Total net assets</b>	<b>\$ 2,288,468</b>	<b>\$ 1,132,875</b>	<b>\$ 3,421,343</b>

# Village of Wolverine Lake, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
Legislative	\$ 7,755	\$ -	\$ -	\$ -
General government	411,370	113,276	73,894	7,602
Public safety	845,917	62,640	-	-
Public works	819,690	1,145	264,150	-
Community and economic development	17,012	10,900	-	-
Recreation and culture	93,378	15,649	-	-
Interest on long-term debt	1,260	-	-	-
Total governmental activities	2,196,382	203,610	338,044	7,602
Business-type activities - Water and sewer	155,014	70,010	-	45,108
Total primary government	<u>\$ 2,351,396</u>	<u>\$ 273,620</u>	<u>\$ 338,044</u>	<u>\$ 52,710</u>
General revenues:				
Property taxes				
Intergovernmental - State				
Interest on investments				
Miscellaneous revenues				
Increase in investment in joint venture				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (7,755)	\$ -	\$ (7,755)
(216,598)	-	(216,598)
(783,277)	-	(783,277)
(554,395)	-	(554,395)
(6,112)	-	(6,112)
(77,729)	-	(77,729)
<u>(1,260)</u>	<u>-</u>	<u>(1,260)</u>
(1,647,126)	-	(1,647,126)
<u>-</u>	<u>(39,896)</u>	<u>(39,896)</u>
(1,647,126)	(39,896)	(1,687,022)
1,309,799	-	1,309,799
357,701	-	357,701
13,869	2,681	16,550
46,356	-	46,356
<u>15,603</u>	<u>-</u>	<u>15,603</u>
<u>1,743,328</u>	<u>2,681</u>	<u>1,746,009</u>
96,202	(37,215)	58,987
<u>2,192,266</u>	<u>1,170,090</u>	<u>3,362,356</u>
<u><b>\$ 2,288,468</b></u>	<u><b>\$ 1,132,875</b></u>	<u><b>\$ 3,421,343</b></u>

# Village of Wolverine Lake, Michigan

	Major Funds		
	General	Major Streets	Local Streets
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 875,920	\$ 711,105	\$ 403,371
Receivables - Special assessments	30,898	-	-
Due from other funds (Note 6)	75,772	-	-
Due from other governmental units	<u>118,442</u>	<u>29,805</u>	<u>14,448</u>
Total assets	<u><b>\$ 1,101,032</b></u>	<u><b>\$ 740,910</b></u>	<u><b>\$ 417,819</b></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 98,197	\$ 52	\$ 162
Accrued liabilities	39,015	-	-
Due to other funds	-	21,484	35,643
Deferred revenue (Note 4)	<u>30,898</u>	<u>-</u>	<u>-</u>
Total liabilities	168,110	21,536	35,805
<b>Fund Balances - Unreserved, reported in</b>			
General Fund	932,922	-	-
Special Revenue Funds	<u>-</u>	<u>719,374</u>	<u>382,014</u>
Total fund balances	<u>932,922</u>	<u>719,374</u>	<u>382,014</u>
Total liabilities and fund balances	<u><b>\$ 1,101,032</b></u>	<u><b>\$ 740,910</b></u>	<u><b>\$ 417,819</b></u>

**Governmental Funds  
Balance Sheet  
June 30, 2004**

Nonmajor Funds		Total Governmental Funds
Drug Forfeiture	Debt Service	
\$ 8,065	\$ -	\$ 1,998,461
-	-	30,898
-	-	75,772
-	-	162,695
<u>\$ 8,065</u>	<u>\$ -</u>	<u>\$ 2,267,826</u>
\$ -	\$ -	\$ 98,411
-	-	39,015
-	-	57,127
-	-	30,898
-	-	225,451
-	-	932,922
8,065	-	1,109,453
8,065	-	2,042,375
<u>\$ 8,065</u>	<u>\$ -</u>	<u>\$ 2,267,826</u>

# Village of Wolverine Lake, Michigan

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## **Governmental Funds Reconciliation of the Balance Sheet to the Statement of Activities Year Ended June 30, 2004**

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 2,042,375</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	217,737
Investments in joint ventures are not financial resources and are not reported in the funds	42,029
Special assessment receivables are expected to be collected over several years and are not available to pay current year expenditures	30,898
Compensated absences are included as a liability in governmental activities	<u>(44,571)</u>
<b>Net Assets - Governmental Activities</b>	<b><u>\$ 2,288,468</u></b>



# Village of Wolverine Lake, Michigan

	Major Funds		
	General	Major Streets	Local Streets
<b>Revenue</b>			
Property taxes	\$ 1,309,799	\$ -	\$ -
Special assessments	13,939	-	-
Licenses and permits	67,137	-	-
Fines and forfeitures	22,534	-	-
Intergovernmental:			
Federal	12,448	-	-
State	357,701	175,481	85,016
Other governmental units	34,372	-	3,653
Charges for services	119,813	-	-
Interest from special assessments	7,602	-	-
Interest from investments	7,849	2,073	3,947
Other	66,487	-	-
Total revenue	2,019,681	177,554	92,616
<b>Expenditures - Current</b>			
Legislative	7,755	-	-
General government	429,133	-	-
Public safety	822,293	-	-
Public works	658,973	-	-
Routine maintenance	-	22,321	34,270
Winter maintenance	-	11,680	15,525
Traffic services	-	2,397	1,627
Administration	-	12,492	13,666
Community and economic development	17,012	-	-
Recreation and culture	75,585	-	-
Capital outlay	48,534	-	-
Debt service - Principal	-	-	-
Debt service - Interest	-	-	-
Total expenditures	2,059,285	48,890	65,088
<b>Excess of Revenue Over (Under) Expenditures</b>	(39,604)	128,664	27,528
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	39,987
Transfers out	(36,260)	(39,987)	-
Total other financing sources (uses)	(36,260)	(39,987)	39,987
<b>Net Change in Fund Balances</b>	(75,864)	88,677	67,515
<b>Fund Balances - Beginning of year</b>	1,008,786	630,697	314,499
<b>Fund Balances - End of year</b>	<b>\$ 932,922</b>	<b>\$ 719,374</b>	<b>\$ 382,014</b>

**Governmental Funds**

**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Year Ended June 30, 2004**

Nonmajor Funds		Total
Drug Forfeiture	Debt Service	Governmental Funds
\$ -	\$ -	\$ 1,309,799
-	-	13,939
-	-	67,137
-	-	22,534
-	-	12,448
-	-	618,198
-	-	38,025
-	-	119,813
-	-	7,602
-	-	13,869
<u>1,069</u>	<u>-</u>	<u>67,556</u>
1,069	-	2,290,920
-	-	7,755
-	-	429,133
-	-	822,293
-	-	658,973
-	-	56,591
-	-	27,205
-	-	4,024
-	-	26,158
-	-	17,012
-	-	75,585
-	-	48,534
-	35,000	35,000
<u>-</u>	<u>1,260</u>	<u>1,260</u>
-	36,260	2,209,523
1,069	(36,260)	81,397
-	36,260	76,247
<u>-</u>	<u>-</u>	<u>(76,247)</u>
-	36,260	-
1,069	-	81,397
<u>6,996</u>	<u>-</u>	<u>1,960,978</u>
<u><u>\$ 8,065</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,042,375</u></u>

# Village of Wolverine Lake, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ 81,397

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital assets acquired during the year	38,331
Current year depreciation of capital assets	(51,352)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(13,939)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	35,000
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Increases in investment in joint venture are recorded in the statement of activities when the increased value of the investment is realized	15,603
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Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(8,838)
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**Change in Net Assets of Governmental Activities** \$ 96,202

# Village of Wolverine Lake, Michigan

## Proprietary Fund Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 185,295
Receivables:	
Accounts	28,143
Special assessments	<u>849,524</u>
Total current assets	1,062,962
Long-term assets - Capital assets - Net of accumulated depreciation (Note 5)	<u>970,242</u>
Total assets	2,033,204
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	1,247
Due to other funds	18,645
Current portion of bonds payable	<u>75,000</u>
Total current liabilities	94,892
Noncurrent liabilities - Bonds payable - Net of current portion	<u>805,437</u>
Total liabilities	<u>900,329</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	89,805
Restricted for debt service - Special assessment bonds	849,524
Unrestricted	<u>193,546</u>
Total net assets	<u><u>\$ 1,132,875</u></u>

# Village of Wolverine Lake, Michigan

## Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund
<b>Operating Revenue</b> - Charges for services	\$ 70,010
<b>Operating Expenses</b>	
Personal services	26,633
Supplies	369
Repairs and maintenance	23,986
Insurance	335
Utilities	7,902
Other services and supplies	10,768
Depreciation and amortization	43,796
Total operating expenses	113,789
<b>Operating Loss</b>	(43,779)
<b>Nonoperating Revenue (Expense)</b>	
Interest income from special assessments	45,108
Interest income from investments	2,681
Interest expense	(41,225)
Total nonoperating revenues (expense)	6,564
<b>Change in Net Assets</b>	(37,215)
<b>Net Assets</b> - Beginning of year	1,170,090
<b>Net Assets</b> - End of year	<u>\$ 1,132,875</u>

# Village of Wolverine Lake, Michigan

## Proprietary Fund Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 48,822
Payments to suppliers	(50,344)
Payments to employees	<u>(26,633)</u>
Net cash used in operating activities	(28,155)
<b>Net Cash from Capital and Related Financing Activities</b>	
Principal and interest paid on capital debt	(75,000)
Interest paid on capital debt	(41,225)
Collection on special assessments - Principal	68,846
Collection on special assessments - Interest	<u>45,108</u>
Net cash used in capital and related financing activities	(2,271)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	<u>2,681</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(27,745)
<b>Cash and Cash Equivalents</b> - Beginning of year	<u>213,040</u>
<b>Cash and Cash Equivalents</b> - End of year	<u><b>\$ 185,295</b></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating loss	\$ (43,779)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	43,796
Changes in assets and liabilities:	
Receivables	(1,654)
Decrease in due from other funds	3,358
Accounts payable	(6,984)
Other	2,529
Decrease in due to other funds	<u>(25,421)</u>
Net cash used in operating activities	<u><b>\$ (28,155)</b></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2004, there were no noncash activities in the Water and Sewer Fund.

# Village of Wolverine Lake, Michigan

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## Fiduciary Funds Statement of Assets and Liabilities June 30, 2004

	<u>Agency Funds</u>
<b>Assets - Cash and cash equivalents</b>	<b><u>\$ 44,863</u></b>
<b>Liabilities</b>	
Accounts payable	\$ 5,380
Accrued liabilities	<u>39,483</u>
 Total liabilities	 <b><u>\$ 44,863</u></b>

# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Village of Wolverine Lake, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Wolverine Lake, Michigan:

#### **Reporting Entity**

The Village of Wolverine Lake, Michigan is governed by an elected seven-member council. The accompanying financial statements present the Village.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.



# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary funds financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

**General Fund** - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

The Village reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the Village reports the following fund types:

**Agency Funds** - The Agency Funds account for assets held by the Village as a trustee or an agent for individuals, organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Village's 2003 tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Village totaled approximately \$136 million, on which taxes levied consisted of 9.573 mills for operating purposes. This resulted in approximately \$1.310 million for operating. These amounts are recognized in the General Fund financial statements as tax revenue.

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Sewer treatment facilities	25 - 30 years
Water meters and equipment	10 years
Buildings and improvements	15 - 30 years
Vehicles	3 to 5 years
Equipment	5 to 10 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. If applicable, designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 2 - Stewardship, Compliance, and Accountability

**Budget Information** - The Village is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, except that operating transfers have been included in the "revenue" and 'expenditures' categories, rather than as an "other financing source."

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

The annual budget is prepared by the Village's management and adopted by the Village Council on an activity basis; subsequent amendments are approved by the Village Council. Expenditures in excess of amounts budgeted are in violation of Michigan law. Unexpended appropriations lapse at year end and encumbrances are not included as expenditures, but are reappropriated as part of the subsequent year budget. During the current year, the budget was amended in a legally permissible manner and has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget document presents information by fund, function, department, and line items.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Village of Wolverine Lake, Michigan's General Fund incurred significant expenditures that were in excess of the amounts budgeted as follows:

	Budget	Actual
General Fund - Police department	\$ 675,940	\$ 695,052
General Fund - Sewer/Septic/Water study	22,250	41,851
General Fund - DPW	188,050	243,767

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget overruns in the police department were the result of the hiring of a new patrol officer and the payout of compensated absences of a retiree. Sewer/Septic/Water study department expenditures exceeded budget due to an engineering study to determine the feasibility of a new sanitary sewer system. The budget overruns in the DPW department were the result of unanticipated equipment repairs and increases in actual costs of health insurance provided to employees.

**Construction Code Fees** - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2003		\$ (42,236)
Current year building permit revenue	\$ 34,547	
Related direct expenditures	<u>(25,434)</u>	
Net current year surplus		<u>9,113</u>
Cumulative shortfall at June 30, 2004		<u><u>\$ (33,123)</u></u>

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Village is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Village has designated five banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Village of Wolverine Lake, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	<u>\$ 1,998,461</u>	<u>\$ 185,295</u>	<u>\$ 44,863</u>	<u>\$ 2,228,619</u>

The breakdown between deposits and investments for the Village is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 2,113,211
Investment in interlocal agreement investment pool	114,908
Petty cash or cash on hand	<u>500</u>
Total	<u>\$ 2,228,619</u>

# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

#### Deposits

The bank balance of the Village's deposits is approximately \$2,140,000, of which approximately \$408,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluated each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the Village's investments consisted solely of investments in interlocal agreement investment pools. Interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Investments under interlocal agreements are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, revenue related to special assessments of \$30,898 was deferred in the governmental funds.



# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets not being depreciated - Land	\$ 32,684	\$ -	\$ -	\$ 32,684
Capital assets being depreciated:				
Buildings and improvements	594,431	-	-	594,431
Vehicles	191,762	23,699	6,700	208,761
Equipment	369,927	14,632	-	384,559
Subtotal	1,156,120	38,331	6,700	1,187,751
Accumulated depreciation:				
Buildings and improvements	473,090	19,030	-	492,120
Vehicles	146,524	22,931	-	169,455
Equipment	338,432	9,391	6,700	341,123
Subtotal	958,046	51,352	6,700	1,002,698
Net capital assets being depreciated	198,074	(13,021)	-	185,053
Net capital assets	<u>\$ 230,758</u>	<u>\$ (13,021)</u>	<u>\$ -</u>	<u>\$ 217,737</u>
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Sewer treatment facilities	\$ 1,030,275	\$ -	\$ -	\$ 1,030,275
Buildings and improvements	23,427	-	-	23,427
Water meters and equipment	43,950	-	-	43,950
Vehicles	9,197	-	-	9,197
Subtotal	1,106,849	-	-	1,106,849
Accumulated depreciation:				
Sewer treatment facilities	25,757	41,211	-	66,968
Buildings and improvements	15,805	687	-	16,492
Water meters and equipment	43,682	268	-	43,950
Vehicles	9,197	-	-	9,197
Subtotal	94,441	42,166	-	136,607
Net capital assets being depreciated	<u>\$ 1,012,408</u>	<u>\$ (42,166)</u>	<u>\$ -</u>	<u>\$ 970,242</u>

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 19,030
Public safety	16,136
Public works	14,986
Recreation and culture	<u>1,200</u>

Total governmental activities \$ 51,352

Business-type activities - Water and sewer \$ 42,166

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Streets Fund	\$ 21,484
	Local Streets Fund	35,643
	Water and Sewer Fund	<u>18,645</u>
Total		<u>\$ 75,772</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Debt Service Fund	\$ 36,260
Major Streets Fund	Local Streets Fund	<u>39,987</u>
Total		<u>\$ 76,247</u>

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfer from the General Fund to the Debt Service Fund represents the movement of resources to be used to service general obligation debt; the transfers from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51.

### Note 7 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds -						
Municipal Building Improvements	6.85%- 7.2%	\$5,000 - 35,000	\$ 35,000	\$ (35,000)	\$ -	\$ -
Amount of issue: \$325,000						
Maturing through 2004						
Other long-term liabilities -						
Compensated absences			35,733	8,838	44,571	24,368
Total governmental activities			70,733	(26,162)	44,571	24,368
<b>Business-type Activities</b>						
General obligation bonds -						
Special Assessment Bonds						
Amount of issue: \$1,055,000						
Maturing through 2015						
Gross amount		\$75,000 - 80,000	975,000	(75,000)	900,000	75,000
Amortized discount	4%-6%		(21,193)	1,630	(19,563)	-
Total business-type activities			953,807	(73,370)	880,437	75,000
Total			\$ 1,024,540	\$ (99,532)	\$ 925,008	\$ 99,368

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2005	\$ 75,000	\$ 37,200	\$ 112,200
2006	75,000	34,200	109,200
2007	75,000	31,200	106,200
2008	75,000	28,200	103,200
2009	75,000	25,163	100,163
2010-2014	375,000	77,625	452,625
2015-2016	150,000	7,163	157,163
Total	<u>\$ 900,000</u>	<u>\$ 240,751</u>	<u>\$ 1,140,751</u>

### Note 8 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for all types of claims.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to union employee plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan operated and administered by the MERS Retirement Board. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information of the system. That report may be obtained by writing to MERS at Municipal Way, Lansing, MI 48917.

# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### Note 9 - Defined Benefit Pension Plan (Continued)

**Funding Policy** - The obligation to contribute to and maintain the system for employees was established by negotiation with the Village Council and union contract, which requires employees to contribute to the plan at a rate of 5.27 percent for Department of Public Works employees and at a rate of 9.15 percent for police department employees, based on the December 31, 2001 valuation. The Village is required to contribute at a maximum rate of 10 percent for both groups.

**Annual Pension Cost** - For the year ended June 30, 2004, the Village's annual pension cost of \$67,634 was in excess of the Village's required contribution of \$48,708. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age normal funding method. The additional pension cost was a result of an increase to the required contribution percentage as determined by the actuary subsequent to December 31, 2001. Under the entry age normal cost funding method, total employer contributions are comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contributions (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. The sufficient actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent, (b) projected salary increased of 4.5 percent per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2001, the date of the latest available actuarial valuation, was 30 years.

# Village of Wolverine Lake, Michigan

## Notes to Financial Statements June 30, 2004

### Note 9 - Defined Benefit Pension Plan (Continued)

Three year trend information as of June 30 follows:

	Fiscal Year Ended June 30		
	2002	2003	2004
Municipal Employees' Retirement System:			
Annual pension costs (APC)	\$ 51,692	\$ 55,360	\$ 67,634
Percentage of APC contributed	100%	100%	100%

	Actuarial Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 431,936	\$ 486,077	\$ 586,169
Actuarial accrued liability (AAL) (entry age)	1,081,202	1,227,137	1,292,035
Unfunded AAL (UAAL)	\$ 649,266	\$ 741,060	\$ 705,866
Funded ratio	40%	40%	45%
Covered payroll	\$ 487,687	\$ 557,848	\$ 553,383
UAAL as a percentage of covered payroll	133%	133%	128%

### Note 10 - Defined Contribution Pension Plan

The Village provides pension benefits to all nonunion full-time employees through a defined contribution plan, the Village of Wolverine Lake Pension Plan, administered by Transamerica Asset Management. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment gain and losses. Employees are eligible to participate one year after the date of employment. The Village contributes 10 percent of annual compensation of the participants, which becomes vested 20 percent after three years, increasing 20 percent per year until fully vested after seven years. Contributions are made on a monthly basis. The plan provisions were established and may be amended by the Village Council. The Village's total payroll for the year ended June 30, 2004 was \$932,679. The Village contribution to this plan was calculated on a salary amount of \$240,860, for a required and actual contribution of \$24,086.

# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### **Note 11 - Other Postemployment Benefits**

The Village offers health insurance coverage to retired workers as follows:

For administrative, patrol, and dispatch retirees, under normal retirement, who have attained the age of 55 with 20 years of service, the Village will pay for the employee's and spouse's health insurance for a maximum of 10 years to age 65 with a maximum cost to the Village of \$3,000 per year. After the retiree attains 65 years of age, the Village will pay the insurance carrier a maximum of \$2,000 per year, per couple for the lives of the retiree and spouse. The retired employee pays the difference in cost.

For command officers, under normal retirement, who have attained the age of 55 with 20 years of service, the Village will pay for the employee's and spouse's health insurance for a maximum of 10 years with a maximum cost to the Village of \$2,000 per year. The retired employee pays the difference in cost.

For DPW retirees, under normal retirement, who have attained the age of 55 with 25 years of service, the Village will pay for the employee's and spouse's health insurance for a maximum of 10 years to age 65 with a maximum cost to the Village of \$3,000 per year. After the retiree attains 65 years of age, the Village will pay the insurance carrier a maximum of \$2,000 per year, per couple for the lives of the retiree and spouse. The retired DPW employee pays any difference in cost.

As of June 30, 2004, the Village had one employee obtaining benefits under this plan. Total cost to the Village for the year was \$2,000. The benefit will be funded on a pay-as-you-go basis.

### **Note 12 - Joint Venture**

The Village is a member of the Western Oakland County Cable Commission Authority (the "Cable Authority"), which provides cable services to the residents of the villages of Wolverine Lake and Milford, the townships of Commerce, Highland, Lyon, Milford, and White Lake, and the cities of Walled Lake and Wixom. The Cable Authority receives a management fee from the cable television company and currently receives a portion of the Village's franchise fees. The Village is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The investment in the Cable Authority of \$42,029 is recorded in the statement of net assets.

# Village of Wolverine Lake, Michigan

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## Notes to Financial Statements June 30, 2004

### Note 13 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Village of Wolverine Lake, Michigan has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Village has elected to implement the general provisions of the statement in the current year. The retroactive reporting of the infrastructure was not implemented, but rather will be reported on a prospective basis. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Village's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes assets not previously accounted for by the Village as well as assets totaling approximately \$218,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2003, previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$230,000 to reflect the historical cost of the Village's capital assets at that date.
- The governmental activities column includes other long-term obligations totaling approximately \$45,000 previously reported in the General Long-term Debt Account Group.

As part of the conversion to GASB Statement No. 34, the Police Fund was combined with the General Fund effective July 1, 2003. As a result, beginning fund balance of the General Fund has been restated and includes \$7,469 of fund balance originally reported in the Police Fund.



## **Required Supplemental Information**

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# Village of Wolverine Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>				
Property taxes	\$ 1,304,953	\$ 1,304,953	\$ 1,309,799	\$ 4,846
Special assessments	133,366	133,366	21,541	(111,825)
Licenses and permits	51,000	51,000	67,137	16,137
Fines and forfeitures	13,065	13,065	22,534	9,469
Intergovernmental:				
Federal	18,500	18,500	12,448	(6,052)
State	350,000	350,000	357,701	7,701
Other intergovernmental units	346,000	346,000	34,372	(311,628)
Charges for services	77,350	77,350	119,813	42,463
Interest from investments	15,500	15,500	7,849	(7,651)
Other	27,915	27,915	66,487	38,572
Prior year designated fund balance	328,903	328,903	-	(328,903)
Total revenue	<u>\$ 2,666,552</u>	<u>\$ 2,666,552</u>	<u>\$ 2,019,681</u>	<u>\$ (646,871)</u>
<b>Expenditures</b>				
Legislative:				
Village council	\$ 6,510	\$ 6,510	\$ 7,755	\$ (1,245)
Ordinance fines and fees	450	450	-	450
Total legislative	6,960	6,960	7,755	(795)
General government:				
Administrator	106,160	106,160	96,403	9,757
Elections	-	-	150	(150)
Financial services	5,760	5,760	3,360	2,400
Legal fees	18,000	18,000	15,246	2,754
Clerk	83,260	83,260	61,320	21,940
Treasurer	72,750	72,750	67,385	5,365
Village complex	33,600	33,600	36,793	(3,193)
General services	172,489	172,489	148,476	24,013
Disaster Contingency Account	1,000	1,000	-	1,000
Total general government	493,019	493,019	429,133	63,886
Public safety:				
General services	1,700	1,700	526	1,174
Chief of police	104,868	104,868	94,601	10,267
Police department	675,940	675,940	695,052	(19,112)
Building department	18,700	18,700	25,434	(6,734)
Planning commission	11,910	11,910	4,886	7,024
Zoning board	2,660	2,660	1,794	866
Total public safety	815,778	815,778	822,293	(6,515)

# Village of Wolverine Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (Continued)</b>				
Public works:				
DPW	\$ 188,050	\$ 188,050	\$ 243,767	\$ (55,717)
DPW services	300	300	-	300
Lake improvement	98,300	111,046	118,276	(7,230)
Road subsidy	47,250	47,250	-	47,250
Engineering	5,000	5,000	5,153	(153)
Rubbish/Leaf collection	244,525	244,525	243,286	1,239
Sewer/Septic/Water study	22,250	22,250	41,851	(19,601)
Water Management Board	10,300	10,300	6,640	3,660
Total public works	615,975	628,721	658,973	(30,252)
Community and economic development:				
Community development block grant	35,200	35,200	6,594	28,606
Community services	12,100	15,250	10,418	4,832
Total community and economic development	47,300	50,450	17,012	33,438
Recreation and culture:				
Parks and recreation	61,610	61,610	55,087	6,523
Projects	12,500	20,000	18,271	1,729
Beautification	9,110	9,110	2,227	6,883
Total recreation and culture	83,220	90,720	75,585	15,135
Capital outlay:				
Department of public works	431,500	431,500	14,163	417,337
Police department	49,000	49,000	34,371	14,629
Total capital outlay	480,500	480,500	48,534	431,966
Transfers to other funds	123,800	123,800	36,260	87,540
Total expenditures	<u>\$ 2,666,552</u>	<u>\$ 2,689,948</u>	<u>\$ 2,095,545</u>	<u>\$ 594,403</u>

# Village of Wolverine Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>				
Intergovernmental - State sources	\$ 140,400	\$ 140,400	\$ 175,481	\$ 35,081
Interest from investments	11,000	4,000	2,073	(1,927)
Transfer from other funds	35,160	35,160	-	(35,160)
Total revenues	<u>\$ 186,560</u>	<u>\$ 179,560</u>	<u>\$ 177,554</u>	<u>\$ (2,006)</u>
<b>Expenditures</b>				
Administration:				
Administrator	\$ 1,600	\$ 1,600	\$ 165	\$ 1,435
Road construction	60,200	60,200	1,021	59,179
Outside services	13,960	13,960	11,306	2,654
Routine maintenance:				
Road maintenance	27,000	27,000	21,326	5,674
Drainage	10,500	10,500	995	9,505
Traffic signs	6,000	6,000	2,397	3,603
Winter maintenance - Snow/Ice control	19,000	19,000	11,680	7,320
Transfers to other funds	41,300	41,300	39,987	1,313
Total expenditures	<u>\$ 179,560</u>	<u>\$ 179,560</u>	<u>\$ 88,877</u>	<u>\$ 90,683</u>

# Village of Wolverine Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>				
Intergovernmental - State sources	\$ 81,640	\$ 81,640	\$ 85,016	\$ 3,376
Interest from investments	6,000	6,000	3,947	(2,053)
Transfer from County	5,000	5,000	3,653	(1,347)
Transfer from other funds	91,570	91,570	39,987	(51,583)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues and transfers	<u>\$ 184,210</u>	<u>\$ 184,210</u>	<u>\$ 132,603</u>	<u>\$ (51,607)</u>
<b>Expenditures</b>				
Administration:				
General services	\$ 400	\$ 400	\$ 321	\$ 79
Outside services	13,660	13,660	13,345	315
Routine maintenance:				
Road construction	110,900	110,900	3,852	107,048
Road maintenance	26,500	26,500	27,986	(1,486)
Drainage	8,100	8,100	2,432	5,668
Bridge repair	800	800	1,627	(827)
Traffic signs	2,350	2,350	-	2,350
Winter maintenance - Snow/Ice control	21,500	21,500	15,525	5,975
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenditures	<u>\$ 184,210</u>	<u>\$ 184,210</u>	<u>\$ 65,088</u>	<u>\$ 119,122</u>

December 28, 2004

Village President and  
Members of the Village Council  
Village of Wolverine Lake  
425 Glengary Road  
Wolverine Lake, Michigan 48390

Dear Village President and Council Members:

In planning and performing our audit of the financial statements of the Village of Wolverine Lake, Michigan for the year ending June 30, 2004, we considered the Village's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with management's assertions inherent in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

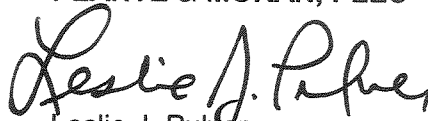
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, also considered to be material weaknesses as defined above. However, we noted certain reportable conditions that we believe to be material weaknesses and have included them in the following pages labeled Internal Accounting Controls. Other reportable conditions, as outlined above, that are not considered material weaknesses, as well as other items we feel warrant your consideration, are included in the section labeled Other Comments and Recommendations..

This report is intended solely for the information and the use of the Village of Wolverine Lake management and others within the Village.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the Village staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**

  
Leslie J. Pulver

  
Scott M. Janssen

### **INTERNAL ACCOUNTING CONTROLS**

As a result of the new Statement on Auditing Standards No. 99, additional testing was performed at the Village's finance department. The focus of this testing was on the Village's cash receipt, cash disbursement and manual journal entry procedures. As a result of this testing, some opportunities to improve the Village's internal controls were noted. Areas for strengthening internal controls include the following:

#### **BANK RECONCILIATIONS**

One of the most important elements of internal control is timely and accurate preparation of bank reconciliations. The reconciliation process helps to identify differences between the bank's records and the Village's general ledger to ensure that transactions are properly accounted for and to allow differences to be followed up on in a timely manner. We recommend that an increased level of attention be devoted to the monthly preparation of the bank reconciliations and that they be prepared in a complete manner and reconciled to the general ledger accounts.

During our testing of special assessments, we also noted that approximately \$115,000 of cash receipts collected on September 19, 2003 were not posted to the general ledger accounts. We provided an adjusting entry as part of our audit to record this amount. We also provided additional entries as part of our audit to adjust other cash accounts. After these adjustments, there remained an unexplained difference of approximately \$35,000 at June 30, 2004 whereby the general ledger balances appeared to be understated. We provided a final entry to increase the general ledger cash balance to actual. The effect of this final entry was reported as an increase to miscellaneous income in the General Fund. Again, a thorough preparation and review of the monthly bank reconciliations will enable the Village to identify and reconcile posting problems soon after they occur.

#### **CUSTOMER BILLINGS AND RECEIVABLES**

During the internal control testing of the customer billing system for water, the Village was unable to support the accuracy of the computerized billings for the Village's sole commercial customer, Mama Mia's. We recommend that the computerized billing system be modified as necessary to ensure that an accurate bill is prepared and sent, based on the authorized water rates and fees in effect.

During our testing of the accounts receivable subsidiary ledger, which indicates the amounts past due for customer water accounts, we noted a difference of approximately \$1,900 between the detail and the general ledger account. We recommend that the account be reconciled and adjustments be posted as necessary.

#### **ACCRUED LIABILITIES**

During the testing of accrued liabilities, we noted several liability amounts included in the general ledger that were incorrectly recorded as a result of automated entries. These automated entries were produced as part of the computerized payroll system. We assisted the Village with identifying the proper adjusting journal entries as of June 30, 2004. In addition, corrections have been made to the computer system.



## **INTERNAL ACCOUNTING CONTROLS** (continued)

### **MANUAL JOURNAL ENTRIES**

As a result of the new Statement on Auditing Standards No. 99, additional testing was performed at the Village's finance department. One area of the testing was on the Village's manual journal entry procedures. As a result of this testing, we noted the following:

- Supporting documentation for manual journal entries was often unavailable. We also noted other instances whereby a detailed description of the journal entry was absent. We recommend that copies of supporting documentation or backup supporting all journal entries be maintained in a separate journal and that journal entry descriptions be provided when preparing journal entries.
- There is no formal approval process for manually posted journal entries. Such journal entries should be reviewed and approved prior to posting, and the approval should be documented.

## **OTHER COMMENTS AND RECOMMENDATIONS**

### **MONTHLY ACCOUNTING "CHECKLIST"**

To assist the finance department with monthly record keeping, we have provided them with a "checklist" (a copy of which is attached for your review) which should be followed to ensure that the record keeping is performed in a complete and accurate manner. The checklist will allow the department to document the completion of each step during the closing process.

### **STATE SHARED REVENUE**

State shared revenue accounts for approximately 18 percent of the Village's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

**OTHER COMMENTS AND RECOMMENDATIONS** (continued)

**STATE SHARED REVENUE** (continued)

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the Village to be very conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the Village over the past four years, with next year's state shared revenue projected, broken out by statutory and constitutional portions. As you can see, state shared revenue for the Village has decreased by approximately \$89,000, or 20%, from the amount received in 2001.

Year ended June 30	Constitutional	Statutory	Total
2001	\$286,000	\$158,000	\$444,000
2002	\$290,000	\$124,000	\$414,000
2003	\$294,000	\$103,000	\$397,000
2004	\$291,000	\$66,000	\$357,000
2005 – estimated	\$300,000	\$55,000	\$355,000

The Village should take these revenue reductions into consideration in regard to long-range planning. We will continue to keep you updated as developments occur.

**OTHER COMMENTS AND RECOMMENDATIONS** (continued)

**PROPERTY ASSESSMENT CAP**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2003 inflation factor is being used for property taxes levied in the Village's fiscal year ended June 30, 2004. Property taxes are the Village's largest source of General Fund revenue as they account for approximately 65 percent of total General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the Village is involved in long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Village. In general terms, if growth on the Village's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Village to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Village's existing property tax base was less than inflation, the Headlee Amendment allowed the Village to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the Village is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the Village's Headlee maximum property tax rate for its operating levy was 11.666 mills even though the Village Charter would allow the Village to levy 20 mills for operations. The actual mills levied were 9.573. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

**OTHER COMMENTS AND RECOMMENDATIONS** (continued)

**PROPERTY TAX MATTERS**

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House bill that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

**RETIREMENT SYSTEMS**

As you may know, the Village's retirement system (MERS) is currently underfunded from an actuarial standpoint. The Village's retirement system is currently 44% funded. The actuary uses a smoothing methodology for valuing assets. As such, the market value losses experienced over the past several years are not fully reflected in the computation of the employers' contributions. At December 31, 2003 (the date of the most recent actuarial valuation), the pension system net assets at market value were significantly lower than the asset values used by the actuary. The Village's required employer contribution will likely increase in the coming years as a result of this situation.

Village of Wolverine Lake  
Monthly closing checklist  
Month of \_\_\_\_\_, \_\_\_\_\_

Item	Description	Supporting worksheet	Done by	Date
1	Bank reconciliation completed. Old reconciling items documented and investigated.			
2	Journal entry(ies) to record investment income and other transactions, such as wire transfers, are posted			
3	All recurring standard journal entries have been drafted and posted to general ledger			
4	Reconciled bank balances agreed to general ledger.			
5	Trial balance is in balance.			
6	Due To's agree to Due From's. Any discrepancies between funds are investigated and appropriate entries are posted.			
7	Transfers In agree to Transfers Out. Any discrepancies between funds are investigated and appropriate entries are posted.			
8	Accounts receivable subsidiary ledger for customer water billings agrees to general ledger.			
9	Accounts payable subsidiary ledgers for each fund agrees to the general ledger accounts			
10	<p>Special assessments collected, exclusive of those associated with the Pan Handle:</p> <ul style="list-style-type: none"> <li>Principal and interest collected is recorded in the appropriate revenue and expense accounts.</li> <li>A corresponding decrease to both the Accounts Receivable SAD a/c #101-000-084.813 and the Deferred Revenue – SAD a/c 101-000-339.000 accounts is recorded to reflect the <u>principal</u> portion collected</li> <li>Ending balance of the Accounts Receivable SAD account agrees to the Schedule of Special</li> </ul>			

	<b><u>Assessments</u></b>			
11	<p>Special assessments collected related to the Pan Handle should only be recorded in Fund 591:</p> <ul style="list-style-type: none"> <li>Principal collected should be recorded as a decrease to the Pan Handle Special Assessments (i.e. receivable) account 591-000-045.000</li> <li>Interest collected is recorded as interest income in the 591 fund (recorded in an account separate from the account used to record interest income earned on investments)</li> <li>Ending balance of the Pan Handle Special Assessments account agrees to the Schedule of Special Assessments</li> </ul>			
	<b><u>Financial statement preparation:</u></b>			
12	Balance sheet prepared and reviewed for unusual items, including any accounts without a supporting schedule.			
13	Budget report prepared and reviewed for unusual items, including revenue or expenditures that appear out of proportion to the annual budget.			
14	Variances from budget and/or expectations identified, documented and suggestions made where appropriate.			
15	Budget amendments suggested where appropriate.			
	<b><u>Everything makes sense / overview checks:</u></b>			
16	Have Act 51 monies been received as expected?			
17	Have General Ledger amounts properly rolled over from prior month?			
18	Does total payroll expense appear reasonable for the month?			
19	Print monthly cash receipts, cash disbursements, and payroll sub ledgers			